Annual Report

July 1, 2015 – June 30, 2016

Office *of*
Mortgage Settlement
Oversight

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Message from the President

My fourth report as President of the Office of Mortgage Settlement Oversight (OMSO) and Monitor of the National Mortgage Settlement covers activities undertaken by the office from July 1, 2015, through June 30, 2016. This report includes the following:

- An updated overview of the organization, its Board of Directors and its contractors and employees.
- An outline of work completed to date and priorities for the coming year.
- Audited financial statements for the period July 1, 2015, through June 30, 2016.

This report focuses entirely on the business of monitoring the National Mortgage Settlement and does not include any data related to Servicer progress toward consumer relief obligations or compliance with the servicing standards under the Settlement. These reports can be found on the OMSO website at **www.mortgageoversight.com**. I strive for transparency in carrying out my duties and obligations as Monitor, and this report is in furtherance of that commitment.

Sincerely,

Joseph A. Smith, Jr.
Monitor

Overview of OMSO

Joseph A. Smith, Jr. formed the Office of Mortgage Settlement Oversight (OMSO), a not-for-profit corporation, to help him carry out his duties as Monitor of the National Mortgage Settlement (NMS).[1] The Monitor is primarily tasked with determining whether the mortgage servicer parties are in compliance with the mortgage servicing standards and consumer relief requirements set forth in the consent judgments of the NMS. OMSO assists the Monitor with functions related to the business of being the Monitor, including managing the OMSO budget, contracting with consultants and professional firms, hiring employees and maintaining books and records. Incorporated on February 6, 2012, OMSO is a North Carolina nonprofit corporation that is tax exempt pursuant to Section 501(c)(4) of the Internal Revenue Code.

1 In 2012, the attorneys general of 49 states and the District of Columbia, the federal government and five banks and mortgage servicers (Bank of America, Citi, JPMorgan Chase, the ResCap Parties and Wells Fargo) reached agreement on the National Mortgage Settlement (the "NMS" or "Settlement") that created new servicing standards, provided relief to distressed homeowners and required direct payments to certain borrowers and to state and federal governments. The NMS was made formal and binding on April 5, 2012, when the United States District Court of the District of Columbia entered the consent judgments containing the Settlement terms.

OMSO Ocwen

The United States District Court for the District of Columbia (Court) entered a new consent judgment in February 2014 reflecting the agreement reached among Ocwen, the Consumer Financial Protection Bureau (CFPB), 49 states and the District of Columbia requiring Ocwen to provide $2 billion in consumer relief and comply with the Settlement servicing standards.[2] Joseph A. Smith, Jr. was appointed to the position of Monitor under the consent judgment. OMSO Ocwen, LLC, a single-member nonprofit subsidiary of OMSO, was formed to assist the Monitor with his duties in respect to that consent judgment.[3]

OMSO SunTrust

In September 2014, the United States District Court for the District of Columbia entered a new consent judgment reflecting the agreement reached among SunTrust Mortgage, Inc., the Consumer Financial Protection Bureau (CFPB), 49 states and the District of Columbia requiring SunTrust Mortgage, Inc. to provide $500 million in consumer relief and comply with the Settlement servicing standards. Joseph A. Smith, Jr. was appointed to the position of Monitor under the consent judgment. OMSO ST, LLC, a single-member nonprofit subsidiary of OMSO, was formed to assist the Monitor with his duties in respect to that consent judgment.

OMSO HSBC

In February 2016, the United States District Court for the District of Columbia entered a new consent judgment reflecting the agreement reached among HSBC Bank USA, N.A., certain other HSBC parties thereto, the United States of America, 49 states and the District of Columbia requiring the HSBC parties thereto to provide $370 million in consumer relief and comply with the servicing standards attached thereto.

Joseph A. Smith, Jr. was appointed to the position of Monitor under the consent judgment. OMSO HSBC, LLC, a single-member nonprofit subsidiary of OMSO, was formed to assist the Monitor with his duties in respect to that consent judgment.

2 Ocwen had been subject to NMS servicing standards for a servicing portfolio purchased from ResCap in February 2013, prior to the 2014 consent judgment. The 2014 consent judgment extended these obligations to Ocwen's entire servicing portfolio.

3 Unless the context otherwise requires, references in this report to the "Settlement" or "NMS" also include the Ocwen, SunTrust Mortgage, Inc., and HSBC consent judgements.

Board of Directors and Governance

OMSO enables the Monitor to carry out his duties transparently and independently with administrative oversight and support from a Board of Directors. The Board consists of two management directors, including the Monitor, and three independent directors. The independent directors and John Allison do not oversee the Settlement.

The Monitor also serves as the Chairman of the Board. Directors are:

JOHN S. ALLISON

John Allison, former commissioner of the Mississippi Department of Banking and Consumer Finance, served the state from 1972 until his retirement in 2011. Over the span of his career, he held various positions within the department, including deputy commissioner and acting commissioner. His three-term appointment as commissioner spanned the final 12 years of his tenure.

In addition to his work for Mississippi, Allison was an active member of the Conference of State Bank Supervisors, the association that oversees and regulates the nation's 6,000 state-chartered commercial and savings banks and 400 state-licensed foreign banking offices. He held numerous leadership roles, chairing the organization in 2005.

From 2002 to 2006, Allison was a member of the State Liaison Committee of the Federal Financial Institutions Examination Council (FFIEC), serving as chairman during his last two years with the organization. While part of the FFIEC, which sets standards for the federal examination of financial institutions and makes recommendations to improve their supervision, Allison participated in an emergency preparedness task force. That group developed a plan to help institutions prepare for a catastrophic event such as Hurricane Katrina.

In September 2007, Allison was appointed to the six-member board of managers of the States Regulatory Registry LLC, which was charged with developing and now overseeing the national licensing system for mortgage professionals.

Allison currently serves as the Treasurer, Vice President and Secretary of OMSO.

A native of Olive Branch, Mississippi, Allison graduated from Olive Branch High School in 1965. He earned his bachelor's degree from the University of Mississippi, majoring in banking and finance. Following his undergraduate work, he served for two years in the United States Army, earning the Bronze Star Medal during a tour of duty in Vietnam.

Allison is also a graduate of the School of Banking of the South at Louisiana State University, and he has participated in a number of federal regulatory courses and seminars. He is married to the former Jan Garner of Kosciusko, Mississippi, and they have two grown children.

BONNIE HANCOCK

Bonnie Hancock is executive director of the Enterprise Risk Management Initiative at the North Carolina State University Poole College of Management, where she also teaches. Before joining academia, Hancock worked for Fortune 250 company Progress Energy, where she led the merger of Carolina Power & Light Company and Florida Progress. She also served as president of Progress Fuels, an unregulated subsidiary with more than $1 billion in assets, and she held a number of executive positions during her tenure, including senior vice president, finance and information technology; vice president, strategic planning; vice president, accounting and controller; and tax manager. Hancock also held management positions at Potomac Electric Power Co. in Washington, D.C., and worked in public accounting.

Currently, Hancock teaches and consults on a range of topics from strategic planning and business valuation to financial management and enterprise risk management. She also serves as an outside director for AgFirst Farm Credit Bank, where she chairs the risk policy committee, and she serves on the board of Powell Industries, a publicly traded company in Houston, Texas.

Hancock holds a bachelor's degree in business administration from the College of William and Mary and a master's degree in taxation from Georgetown University. She has also completed an executive management program at Duke University. She was a 1983 recipient of a Sells Award, a national recognition for performance on the CPA examination.

DONALD A. PAPE

Donald Pape is a banker and an attorney with the Norman, Oklahoma, office of Phillips Murrah P.C., an Oklahoma City business law firm. He also brings 36 years of experience to this position as chairman of the board of Republic Bank & Trust in Norman, where assets have grown from $18 million to $510 million under his leadership.

In addition, Pape serves as the past chair of the Bankers Advisory Board of the Conference of State Bank Supervisors in Washington, D.C., and is a member of the Oklahoma Tobacco Settlement Endowment Trust Board of Investors.

Pape, whose law practice is focused on banking law and regulation, is admitted to practice in all Oklahoma state courts, the United States District Court for the Western District of Oklahoma and the United States Supreme Court.

D. KEITH PIGUES

D. Keith Pigues is the CEO and founder of Luminas Strategy in Research Triangle Park, North Carolina. Luminas helps clients improve their value proposition and win in the marketplace with a unique approach to gain and apply customer insight and competitive intelligence to impact critical business decisions.

Pigues previously served as a partner with Keen Strategy, was a tenured professor and dean of the School of Business at North Carolina Central University, and was chief marketing officer or senior marketing executive at Honeywell International, Cemex, RR Donnelley, ADP (now CDK Global) and Ply Gem Industries. Earlier in his career, he served in a variety of marketing, strategic planning and sales leadership positions with companies such as IBM, Hewlett Packard and Monsanto. Pigues is coauthor of "Winning with Customers: A Playbook for B2B" (Wiley & Sons 2010), which became an inaugural selection of the C-Suite Book Club and was featured on Best Seller TV.

Pigues earned a B.S. in electrical engineering from Christian Brothers University, where he was the first recipient of the university's Distinguished Young Alumnus Award. He also earned an MBA from the University of North Carolina Kenan-Flagler Business School and undertook additional graduate business studies at Manchester University in the United Kingdom.

JOSEPH A. SMITH, JR.

Joseph Smith was appointed Monitor of the NMS on April 5, 2012, by a bipartisan group of 49 state attorneys general, the District of Columbia, the United States federal government and the nation's five largest mortgage servicers. Smith's appointment as Monitor under the five original NMS consent judgments was for a term of three and a half years, which ended on October 4, 2015, with a final report to the United States District Court for the District of Columbia that he filed April 2016. His work under the NMS was subsequently expanded by the Ocwen, SunTrust Mortgage and HSBC consent judgements described earlier in this report.

On November 19, 2013, Smith was also appointed to monitor the consumer relief obligations included in the $13 billion settlement between the United States Department of Justice and JPMorgan Chase. In his role, Smith is responsible for validating JPMorgan Chase's assertion of credit under such settlement for $4 billion in consumer relief to be provided by the Servicer. In addition, Smith was appointed Special Master for the U.S. Department of Education in 2015.

In that role, he advised the department on issues related to student loan debt.

Smith served as North Carolina Commissioner of Banks from 2002 to 2012. As commissioner, he oversaw the licensing and regulation of banks and thrifts. He also helped implement the North Carolina Mortgage Lending Act, the North Carolina Secure and Fair Enforcement Mortgage Licensing Act and the State Home Foreclosure Prevention Project. While commissioner, Smith also served from 2009 to 2010 as chairman of the Conference of State Bank Supervisors. He was an organizer and member of the Board of Managers of the State Regulatory Registry, LLC, an organization dedicated to creating a nationwide mortgage licensing system.

Prior to his tenure in state government, Smith spent 27 years practicing corporate, securities and banking law in North Carolina, Connecticut and New York. He is the former general counsel and secretary of a North Carolina bank holding company and is a partner at Poyner Spruill LLP.

Smith earned a bachelor's degree from Davidson College in 1971 and his Juris Doctor from the University of Virginia in 1974.

Between July 1, 2015, and June 30, 2016, the Board met five times.

The Board has established an Audit Committee, an Investment Committee and a Public Policy Committee composed of the following members:

AUDIT COMMITTEE:
Bonnie Hancock, Chair; Donald Pape; Keith Pigues

INVESTMENT COMMITTEE:
Donald Pape, Chair; Joseph Smith

PUBLIC POLICY COMMITTEE:
Keith Pigues, Chair; Donald Pape

Officers

The officers of OMSO are Joseph Smith, who serves as the President and Chairman of the Board; John Allison, who serves as the Treasurer, Vice President and Secretary; and Christine Hood, who serves as the Assistant Secretary and is an employee of Poyner Spruill LLP.

Contractors

The consent judgments that make up the Settlement authorize the Monitor to retain a Primary Professional Firm (PPF) and various Secondary Professional Firms (SPFs) to support him in carrying out his duties. The Monitor engaged BDO Consulting (BDO), a division of BDO USA, LLP, as his PPF.

In addition, the Monitor previously contracted with five SPFs, and currently is contracted with three SPFs, each of which is independent of the Servicer to which it is assigned:

- Baker Tilly Virchow Krause, LLP
- BKD, LLP
- Crowe Horwath LLP
- Grant Thornton LLP
- RSM US LLP (formerly McGladrey)

The Settlement also allows the Monitor to engage attorneys or other professionals to represent or assist him.

In addition to the firms mentioned above, OMSO has contracted with consultants, forensic accountants and attorneys to assist the Monitor with his role in monitoring the Settlement. OMSO retained the law firms of Poyner Spruill LLP (of which Joseph Smith is a partner) and Smith Moore Leatherwood LLP; the forensic accounting firm of Parkside Associates LLC; the accounting firm Cherry Bekaert LLP; and the communications firm Capstrat. As required by the Settlement, each firm is independent of the Servicers. Separately, OMSO retained Brooks, Pierce, McLendon, Humphrey & Leonard, LLP as general counsel. OMSO also retained Langdon & Company LLP to assist with bookkeeping and preparing financial statements.

Conflicts and Protocol

The consent judgments provide that the Monitor and professionals in his employ shall not have any prior relationships with the Servicers that would undermine public confidence in the objectivity of their work. Prior to contracting with any firm, the Monitor conducted a thorough background review of each candidate firm to verify that there were no substantial or meaningful conflicts of interest. Additionally, all master contracts with OMSO include a provision that the contractor has no agreements, has had no agreements and will not enter into any agreements that may conflict in any way with the services to be provided. The Monitor established a corporate policy that requires each contractor to sign a conflict of interest certification every six months stating that its conflict of interest status has not changed.

The consent judgments also require that any firm that performs work overseeing a Servicer must agree not to work on behalf of that Servicer for a period of six months after the conclusion of the term of engagement. OMSO has ensured compliance with these agreements.

Employees

John Allison is employed on a part-time basis as the Treasurer, Vice President and Secretary. Additional administrative services are provided by an OMSO staff member and by an employee of Poyner Spruill who provides services to OMSO under an agreement with Poyner Spruill.

Other Matters

SERVICING STANDARDS

The Monitor's work testing the original servicers is complete. Testing for Ocwen, SunTrust Mortgage and HSBC continues, and the next reports are expected to be filed with the Court in the fourth quarter of 2016 or early 2017.

The Monitor released two sets of reports concerning five of the eight Servicers' compliance with the servicing standards. *Update on Compliance*[4] and *Original Servicers' Final Compliance Update*[5] included compliance testing results for Bank of America, Chase, Citi, Ditech and Wells Fargo. The Monitor released his final compliance update for the original servicers on March 3, 2016. The Monitor also released three reports specific to Ocwen and SunTrust.

CONSUMER RELIEF COMPLETION

The original servicers completed their consumer relief obligations under the Settlement in March 2014.[6]

The Monitor validated in April 2016 that Ocwen completed its consumer relief obligations under the Settlement.[7] In addition, the Monitor has released Ocwen and SunTrust Mortgage's self-reported gross consumer relief data in four progress reports.[8]

OCWEN FORECLOSURE HOLD

Ocwen was delayed in implementing its Corrective Action Plan (CAP) for its failure of Metric 31.

This metric tests whether the servicer sent a denial notification to a borrower that included the reason for the denial, the factual information Ocwen considered in making its decision and a timeframe by which the borrower can provide evidence that the decision was made in error. Ocwen's delay was due to difficulties in resolving the technical issues that led to the original fail.

The Monitor required Ocwen to hold the foreclosure process for any borrowers who could have been affected by the technical issues, 17,000 borrowers in total. The Monitor lifted this hold in July 2016, after every borrower who could have been affected got the correct information and had a chance to appeal.

COMPLAINTS

The Monitor further evaluates Ocwen, SunTrust Mortgage and HSBC through analysis of the complaints received from the Servicers, attorneys general, governmental agencies and public groups and organizations.

CONSUMER FINANCIAL PROTECTION BUREAU

OMSO signed an agreement with the Consumer Financial Protection Bureau (CFPB) on February 8, 2013, to provide the Monitor with access to CFPB's Consumer Complaint Database government portal, an electronic delivery system operated by the CFPB that provides secure access to various complaints from individuals about the business practices of financial services firms, including the Servicers. The purpose of the agreement is to facilitate the sharing of consumer complaint data collected by the

4 *Update on Compliance* released December 15, 2015.

5 *Original Servicers' Final Compliance Update* released March 3, 2016.

6 *Final Credit Report* released March 18, 2014.

7 *Update on Ocwen's Consumer Relief and Compliance* released April 28, 2016.

8 *SunTrust Consumer Relief Q1 2015* released August 11, 2015.
Ocwen Consumer Relief Q1 2015 released August 11, 2015.
SunTrust Consumer Relief Q2 and Q3 2015 released June 23, 2016.
Ocwen Consumer Relief Q2, Q3, Q4 2015 released June 23, 2016.

CFPB. The CFPB data supplements the complaints OMSO receives through its other channels.

PUBLIC ROLE

Public engagement and transparency remain priorities for the Monitor. The Monitor has released regular updates to inform the public and policymakers. The Monitor continues to conduct regular interviews with the media, appear at speaking engagements across the country and post his reports and updates to the OMSO website and his social platforms.

FUTURE ACTIVITIES OVERVIEW

The Monitor will report on the consumer relief and servicing standards compliance of SunTrust Mortgage and HSBC and the servicing standards compliance of Ocwen through at least 2017.

OMSO expects to continue to support Joseph A. Smith, Jr. in his role under the Settlement throughout his term as Monitor. In addition, OMSO expects to release a fifth annual report that will highlight the activities OMSO undertakes during the current fiscal year (July 1, 2016, through June 30, 2017). A more detailed overview regarding expected future activities of OMSO can be found in Appendix A.

Timelines

The timeline on these pages shows the historical dates beginning with the announcement of the National Mortgage Settlement.

Make Up of the Organization
The National Mortgage Settlement kicked off several milestones from the appointment of the Monitor to the release of his first report.

Consumer Relief
The banks must provide at least $25 billion to provide struggling homeowners with relief. They must periodically report their activities, including meeting certain thresholds, by specific dates. The Monitor must also provide reports to the D.C. District Court regarding bank compliance.

Servicing Standards
The banks were required to comply with more than 300 servicing standards by October 2, 2012, and they continue to provide quarterly reports to the Monitor regarding how well those standards are working. The Monitor will continue to provide reports to the D.C. District Court regarding bank compliance. The Monitor also negotiated four additional metrics to test servicers' compliance.

March 1, 2012
Servicers began Consumer Relief activities.

March 1, 2012
Servicers began implementing Servicing Standards.

March 20, 2012
National Mortgage Settlement announced.

April 5, 2012
Consent judgments entered in D.C. District Court; Smith officially named Monitor.

June 4, 2012
Monitor selected BDO as PPF.

June 4, 2012
End of 60-day period in implementation schedule.

July 1, 2012
Servicers began quarter when they will be evaluated against up to nine Metrics.

July 5, 2012
End of 90-day period in implementation schedule.

July 27, 2012
Monitor and servicers reached agreement on initial Work Plans.

August 6, 2012
Monitor selected five SPFs – one for each servicer.

August 14, 2012
Servicers reported preliminary relief activity between March 1, 2012, and June 30, 2012, to Monitor.

August 22, 2012
Monitor and servicers reached agreement on amended Work Plans.

August 29, 2012
Monitor released Progress Report.

August 29, 2012
Monitor released Progress Report.

October 1, 2012
Servicers began quarter when they will be evaluated against up to 20 Metrics.

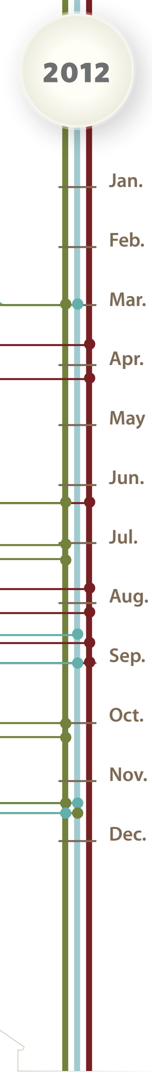
October 2, 2012
End of 180-day period in implementation schedule; all 304 Servicing Standards implemented.

November 14, 2012
Servicers delivered State Reports to states with copy to Monitor.

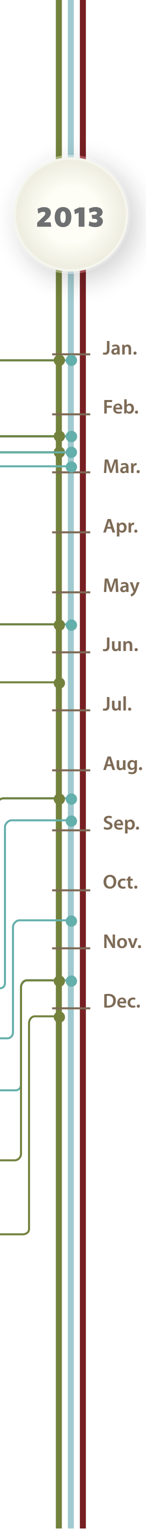
November 14, 2012
Quarterly Report from servicer to Monitor regarding Q3 2012 performance on Metrics.

November 19, 2012
Monitor released Progress Report.

November 19, 2012
Monitor released Progress Report.



2013



January 1, 2013
IRG began conducting Satisfaction Review of Consumer Relief requirements through December 31, 2012.

January 1, 2013
Servicers began quarter when they will be evaluated against all 29 Metrics.

Febuary 14, 2013
Servicers delivered State Reports to states with copy to Monitor.

Febuary 14, 2013
Monitor released ResCap Parties Crediting Report.

Febuary 14, 2013
Quarterly Report from servicer to Monitor regarding Q4 2012 performance on Metrics.

Febuary 21, 2013
Monitor released Progress Report.

Febuary 21, 2013
Monitor released Progress Report.

Febuary 28, 2013
Servicers completed Consumer Relief activity eligible for 125% bonus credit.

May 15, 2013
Servicers delivered State Reports to states with copy to Monitor.

May 15, 2013
Quarterly Report from servicer to Monitor regarding Q1 2013 performance on Metrics.

June 19, 2013
Monitor issued Summary of Compliance Report.

August 14, 2013
Servicers delivered State Reports to states with copy to Monitor unless Consumer Relief obligations already satisfied.

August 14, 2013
Quarterly Report from servicer to Monitor regarding Q2 2013 performance on Metrics.

August 22, 2013
Monitor released a Final Progress Report.

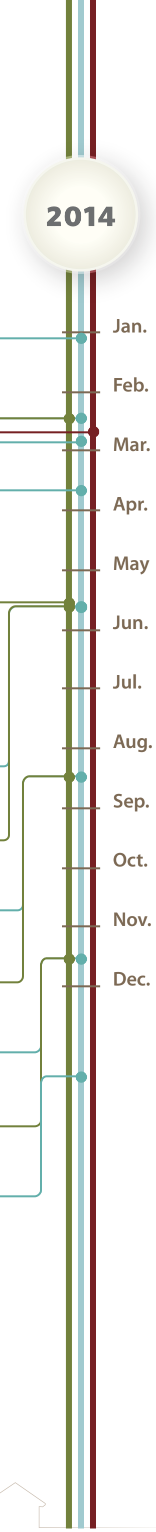
October 16, 2013
Monitor released Interim Crediting Report.

November 14, 2013
Servicers delivered State Reports to states with copy to Monitor unless Consumer Relief obligations already satisfied.

November 14, 2013
Quarterly Report from servicer to Monitor regarding Q3 2013 performance on Metrics.

December 4, 2013
Monitor issued report to D.C. District Court on Metrics through June 30, 2013.

2014



January 1, 2014
IRG conducted Satisfaction Review of Consumer Relief requirements unless servicer previously asserted it had satisfied obligations.

Febuary 14, 2014
Servicers delivered State Reports to states with copy to Monitor unless Consumer Relief obligations already satisfied.

Febuary 14, 2014
Quarterly Report from servicer to Monitor regarding Q4 2013 performance on Metrics.

Febuary 26, 2014
D.C. District Court entered a new consent agreement with Ocwen, the CFPB, 49 states and the District of Columbia requiring the lender to provide $2 billion in Consumer Relief and to comply with the servicing standards of the Settlement. Joseph A. Smith, Jr. was appointed to the position of Monitor under the consent judgment.

Febuary 28, 2014
Servicers completed at least 75% of Consumer Relief activity.

March 18, 2014
Monitor issued Final Crediting Report to D.C. District Court on servicer's satisfaction of Consumer Relief requirements.

May 14, 2014
Monitor issued Compliance in Progress Report to D.C. District Court on Metrics.

May 15, 2014
Servicers delivered State Reports to states with copy to Monitor unless Consumer Relief obligations already satisfied.

May 15, 2014
Quarterly Report from servicer to Monitor regarding Q1 2014 performance on Metrics.

August 14, 2014
Servicers delivered State Reports to states with copy to Monitor unless Consumer Relief obligations already satisfied.

August 14, 2014
Quarterly Report from servicer to Monitor regarding Q2 2014 performance on Metrics.

November 14, 2014
Servicers to delivered State Reports to states with copy to Monitor unless Consumer Relief obligations already satisfied.

November 14, 2014
Quarterly Report from servicer to Monitor regarding Q3 2014 performance on Metrics.

December 16, 2014
Monitor issued Continued Oversight to D.C. District Court on Metrics.

2015

January 1, 2015
IRG conducted Satisfaction Review of Consumer Relief requirements unless servicer previously asserted it had satisfied obligations.

May 7, 2015
Monitor issued Ocwen Second Interim Update to the D.C. District Court on Metrics.

June 30, 2015
Monitor issued Compliance Update to the D.C. District Court on Metrics.

August 11, 2015
Monitor issued SunTrust Consumer Relief Report to the D.C. District Court.

August 11, 2015
Monitor issued Ocwen Consumer Relief Report to the D.C. District Court.

August 11, 2015
Monitor issued Ocwen Compliance Update to the D.C. District Court.

October 25, 2015
Monitor issued An Update on Ocwen's Compliance to the D.C. District Court on Metrics.

December 17, 2015
Monitor issued Update on Compliance to the D.C. District Court on Metrics.

Jan. Feb. Mar. Apr. May Jun. Jul. Aug. Sep. Oct. Nov. Dec.

2016

March 3, 2016
Monitor issued Original Servicers' Final Compliance Update to the D.C. District Court on Metrics.

April 28, 2016
Monitor issued Update on Ocwen's Consumer Relief and Compliance to the D.C. District Court.

May 19, 2016
Monitor issued Update on SunTrust's Consumer Relief and Compliance to the D.C. District Court.

Jan. Feb. Mar. Apr. May Jun. Jul. Aug. Sep. Oct. Nov. Dec.

OFFICE OF MORTGAGE SETTLEMENT OVERSIGHT AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULE

As of and for the Year Ended June 30, 2016

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

OFFICE OF MORTGAGE SETTLEMENT OVERSIGHT AND SUBSIDIARIES

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Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

Board of Directors
Office of Mortgage Settlement Oversight and Subsidiaries
Raleigh, North Carolina

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Office of Mortgage Settlement Oversight (a nonprofit organization) ("OMSO") and Subsidiaries, which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to OMSO's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OMSO's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of OMSO as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated supplemental schedule, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Cherry Bekaert LLP

Raleigh, North Carolina
November 7, 2016

OFFICE OF MORTGAGE SETTLEMENT OVERSIGHT AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2016

ASSETS		
Current Assets:		
Cash and cash equivalents	$	18,457,105
Other Assets:		
Prepaid expenses		560,648
Total Assets	$	19,017,753
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	$	5,702,037
Accrued liabilities		27,420
Total Liabilities		5,729,457
Net Assets:		
Unrestricted		13,288,296
Total Liabilities and Net Assets	$	19,017,753

The accompanying notes to the consolidated financial statements are an integral part of this statement.

OFFICE OF MORTGAGE SETTLEMENT OVERSIGHT AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2016

Unrestricted Revenue and Other Support:		
Service income	$	64,161,207
Interest income		5,408
Total Unrestricted Revenue and Other Support		64,166,615
Expenses:		
Professional services		55,578,916
Management and general		2,229,951
Total Expenses		57,808,867
Increase in unrestricted net assets		6,357,748
Net unrestricted assets, beginning of year		6,930,548
Net unrestricted assets, end of year	$	13,288,296

The accompanying notes to the consolidated financial statements are an integral part of this statement.

OFFICE OF MORTGAGE SETTLEMENT OVERSIGHT AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2016

Cash flows from operating activities:		
Increase in unrestricted net assets	$	6,357,748
Adjustments to reconcile increase in unrestricted net assets		
to net cash provided by operating activities:		
Changes in assets and liabilities:		
Decrease in accounts receivable		1,856
Decrease in prepaid expenses		602,711
Decrease in accounts payable		(4,160,752)
Increase in accrued liabilities		3,821
Net cash provided by operating activities		2,805,384
Net increase in cash and cash equivalents		2,805,384
Cash and cash equivalents, beginning of year		15,651,721
Cash and cash equivalents, end of year	$	18,457,105

The accompanying notes to the consolidated financial statements are an integral part of this statement.

Note 1—Organization and summary of significant accounting policies

Organization – Office of Mortgage Settlement Oversight ("OMSO") was incorporated as a nonprofit corporation in North Carolina on February 6, 2012. OMSO was formed by the Monitor, Joseph Smith, to help him carry out the duties he was given in the National Mortgage Settlement ("Settlement"), as described below. On May 16, 2014, July 8, 2014, and October 7, 2015 three Limited Liability Companies were created to assist the Monitor in carrying out his duties.

On February 9, 2012, the attorneys general of 49 states and the District of Columbia, the federal government, and five banks and mortgage servicers reached an agreement on a mortgage Settlement that will create new servicing standards, provide loan modification relief to distressed homeowners, and provide funding for state and federal governments. The Settlement was made formal and binding on April 5, 2012, when the U.S. District Court in Washington, District of Columbia entered the consent judgments containing the Settlement terms. The terms of the Settlement will remain in full force and effect for three and one-half years from the binding date with an additional six months for the Monitor to review the final report.

On December 19, 2013, the attorneys general of 49 states and the District of Columbia, the federal government, and a nonbank mortgage loan servicer reached an agreement on mortgage Settlement. The Settlement was made formal and binding on February 26, 2014. The terms of the Settlement will remain in full force and effect for three and one-half years from the binding date with an additional six months for the Monitor to review the final report.

On June 17, 2014, the attorneys general of 49 states and the District of Columbia, the federal government, and a mortgage servicer reached an agreement on mortgage Settlement. The Settlement was made formal and binding on September 30, 2014. The terms of the Settlement will remain in full force and effect for three years from the binding date, provided they meet the terms as presented in the Consent Judgment, with an additional six months for the Monitor to review the final report.

On March 14, 2016, the attorneys general of 49 states and the District of Columbia, the federal government, and a mortgage servicer reached an agreement on mortgage Settlement. The Settlement was made formal and binding on May 16, 2016. The terms of the Settlement will remain in full force and effect for three years from the binding date, provided they meet the terms as presented in the Consent Judgment, with an additional six months for the Monitor to review the final report.

Basis of Accounting – OMSO's consolidated financial statements are prepared on the accrual basis of accounting, whereby income is recognized when earned and expenses are recognized when incurred in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation – Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standard Codification No. 958, *Financial Statements of Not-for-Profit Organizations*. This statement requires that not-for-profit organizations provide a statement of financial position, a statement of activities and changes in net assets, and a statement of cash flows. Also, the statement requires classification of an organization's net assets, revenues, and expenses based on the existence or absence of donor-imposed restrictions (permanently restricted, temporarily restricted, or unrestricted). All net assets of OMSO and changes therein are considered unrestricted net assets.

Principles of Consolidation – During the year ended June 30, 2016, there were three subsidiaries with three separate agreements that support the activities of OMSO. The three agreements were reached in December 2013, June 2014, and March 2016. Although these subsidiaries are separate legal entities with their own accounting records, their financial position and changes in net assets have been included in the accompanying consolidated financial statements due to OMSO having an economic interest in and exercising control over the subsidiaries. Intercompany transactions have been eliminated in the consolidated financial statements.

Note 1—Organization and summary of significant accounting policies (continued)

Use of Estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents – For the purposes of the statement of cash flows, OMSO considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. OMSO places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation covers $250,000 for substantially all depository accounts. As of June 30, 2016, OMSO had no amounts in excess of these insured amounts.

Prepaid Expenses – OMSO purchased a general liability insurance policy in the amount of $4,352,000 with a policy period of April 1, 2012 through April 1, 2021. The policy has a limit of liability of $50,000,000 in the aggregate for each policy period. In connection with various Settlement agreements OMSO renewed its general liability insurance policy for the additional exposure. The premiums paid for the additional exposure totaled $607,800. These payments are being accounted for as a prepaid, with the policy expense being amortized accordingly.

Property and Equipment – OMSO leases predominantly all property and equipment due to the finite life of the organization.

Revenue Recognition – Revenue is recognized in the consolidated statement of activities and changes in net assets generally when cash is received by OMSO.

Income Taxes – OMSO received Internal Revenue Service ("IRS") approval as a tax exempt organization on December 12, 2013 under Section 501(c)(4) of the Internal Revenue Code, and accordingly, is not subject to federal income tax. Management has evaluated the effect of the guidance provided by U.S. Generally Accepted Accounting Principles on Accounting for Uncertainty in Income Taxes. Management believes that OMSO continues to satisfy the requirements of a tax-exempt organization at June 30, 2016. Management has evaluated all other tax positions that could have a significant effect on the consolidated financial statements and determined OMSO had no uncertain income tax positions at June 30, 2016. OMSO's federal Exempt Organization Business Income Tax Returns (Form 990) are subject to examination by the IRS, generally for three years after they are filed.

Net Assets – Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of restrictions imposed by a third party. Accordingly, net assets of OMSO and changes therein are classified and reported as follows:

> *Unrestricted* – Unrestricted net assets are not subject to third party imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.
>
> *Temporarily Restricted* – Temporarily restricted net assets are subject to third party imposed stipulations that may or will be met by the occurrence of a specific event or the passage of time. When a third party restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
>
> *Permanently Restricted* – Permanently restricted net assets are those net assets for which use is restricted in perpetuity by a third party.

Note 2—Operating lease

Effective June 29, 2016, OMSO amended its existing sublease agreement with the law firm Poyner Spruill, LLP to extend the term to June 30, 2018. The sublease had previously been amended to provide Poyner Spruill, LLP the capability of subleasing OMSO's operating space to a co-tenant and reducing the monthly payment and parking rates charged to OMSO. Under the amended agreement, OMSO and the co-tenant are allocated their proportional share of the base rent based on a usage factor that is determined by their respective share of the total number of billable hours generated by OMSO and the co-tenants subcontractors with respect to their businesses for a given calendar year.

Rent expense amounted to $108,283 for the year ended June 30, 2016.

Future minimum lease payments are as follows:

Year Ending June 30,		
2017	$	122,754
2018		124,975
Total	$	247,729

Note 3—Related party transactions

OMSO has a sublease agreement with the law firm Poyner Spruill LLP. OMSO's operating lease agreement details are listed above in Note 2. The leased space is used as the office space for OMSO's employee and management team. The office space is sublet from Poyner Spruill at the same rate as Poyner Spruill's lease agreement. OMSO also has a Legal and Consulting Services agreement with Poyner Spruill for legal and administrative support. The Monitor, Joseph A. Smith, Jr., who is President and a Director of OMSO, had been "Of Counsel" with Poyner Spruill LLP since the inception of OMSO. On April 21, 2015, the Monitor became a Partner with Poyner Spruill LLP.

The expenses associated with the lease agreement and the legal and consulting services agreement are included in the consolidated statement of activities and changes in net assets for the year ended June 30, 2016.

Note 4—Commitments and contingencies

OMSO is subject to various claims, legal proceedings, and investigations covering a wide range of matters that arise in the ordinary course of business. In the opinion of management, all such matters are adequately covered by insurance, and if not so covered are without merit or are of such kind, or involve such amounts, as would not have a significant effect on the financial position or results of activities of OMSO if disposed of unfavorably.

Note 5—Subsequent events

OMSO has evaluated subsequent events through November 7, 2016, in connection with the preparation of these consolidated financial statements, which is the date the consolidated financial statements were available to be issued.

SUPPLEMENTAL SCHEDULE

OFFICE OF MORTGAGE SETTLEMENT OVERSIGHT AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2016

	Professional Services	General and Managerial	Total
Functional Expenses:			
Professional fees	$ 55,578,916	$ -	$ 55,578,916
Payroll expense	-	844,883	844,883
Board of Director fees	-	119,806	119,806
Travel	-	48,113	48,113
Rent	-	108,283	108,283
Telephone	-	12,785	12,785
Other office	-	186,730	186,730
Utilities	-	3,599	3,599
Insurance	-	905,690	905,690
Miscellaneous expenses	-	62	62
Total Functional Expenses	$ 55,578,916	$ 2,229,951	$ 57,808,867